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Economic outlook

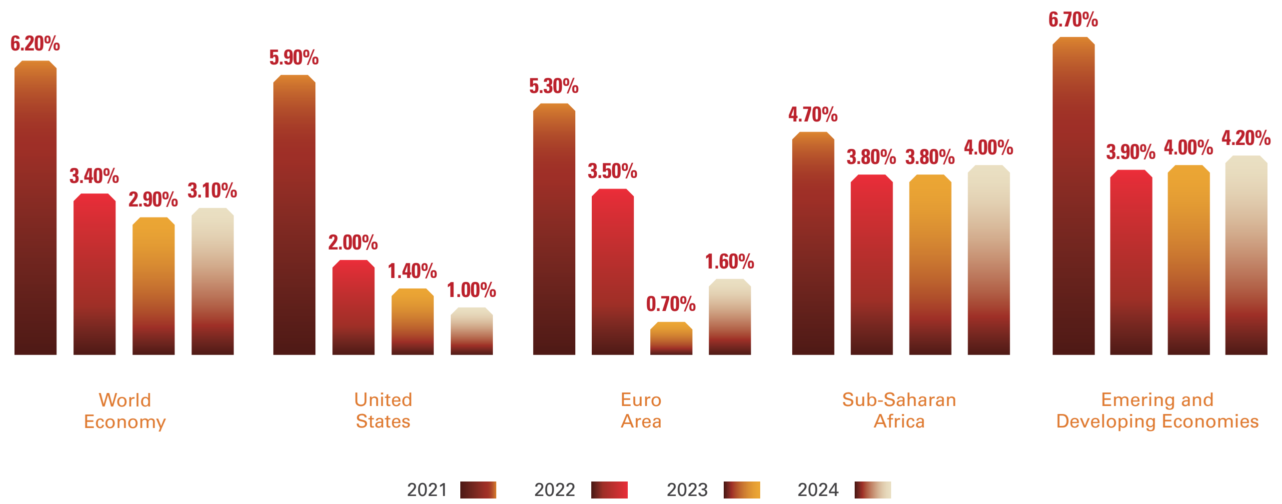
Global economy

The global economy is expected to slow in 2023, before rebounding next year. Growth will remain weak with the elevated inflation, higher interest rates, reduced investment and disruptions caused by Russia's war for invasion of Ukraine.

The global economy is projected to grow at 2.9% in 2023 and 3.1% in 2024.

Low growth is expected in 2023 given the rise in central bank rates to fight inflation, especially in advanced economies as well as the war in Ukraine. In China, growth is anticipated to pick up with the full reopening by late 2023. Gradual recovery from the effects of the war in Ukraine and subsiding inflation are expected in 2024.

World economic outlook growth projections



Source: World Economic Outlook, January 2023

- In the United States, growth is expected to fall from 2.0% in 2022 to 1.4% in 2023 and 1.0% in 2024. The annual growth in 2023, reflecting carryover effects from domestic demand resilience in 2022 and a further decline is expected in 2024, due to the steeper path of federal reserve rate hikes.
- Growth in the Euro area is forecasted to fall at 0.7% in 2023, before rising to 1.6% in 2024. This is due to the faster rate hikes by the European Central Bank as well as lower wholesale energy prices. It is expected to provide fiscal purchasing power support in the form of energy price controls and cash transfers.
- Growth in emerging and developing economies is anticipated to decline to 3.9% in 2022, reflecting a smaller economic contraction in Russia in 2022, followed by a moderate positive growth of 4% in 2023.
- In China, growth is estimated to rise to 5.2% in 2023, reflecting rapidly improving mobility and is expected to fall at 4.5% in 2024, with the slow progress on structural reforms.
- In India, a decline from 6.8% in 2022 to 6.1% in 2023 is expected, before growth picks up to 6.8% in 2024, thanks to the resilient domestic demand despite external headwinds.
- In sub-Saharan Africa (SSA), which is our main target market, growth is projected to remain moderate, at 3.8% in 2023, resulting from a prolonged fallout from the Covid-19 pandemic, before picking up to 4% in 2024. In 2023, Nigeria's rising growth will be due to the measures taken to address insecurity issues in the oil sector. In South Africa, after a COVID-19 reopening rebound in 2022, growth is expected to remain at 1.2% in 2023, thus reflecting weaker external demand, power shortages, and structural constraints.

Mauritian economy

During 2022, Mauritius has faced numerous challenges due to the prevailing global economic conditions, mostly resulting from supply chain disruptions, higher freight costs and other commodity prices. In its latest release of national account estimates (December 2022), Statistics Mauritius expects a growth rate of 7.8%, which will leave GDP above pre-pandemic levels.

Mauritius welcomed 997,290 tourists from January to end of December 2022, generating Rs 64.8 billion in earnings compared to Rs 15.2 billion in 2021. Bookings for the tourism sector show that tourist arrivals are expected to gather further momentum due to the rebound following the pandemic, with a number of Mauritian markets growing faster than two years ago as per Mauritius Tourism Promotion Authority.

The manufacturing, financial services, construction and wholesale & retail trade sectors continue to maintain good momentum and prospects are promising going forward. The recovery in economic activity impacted favourably on the labour market, with the unemployment rate further falling to 7.5% in 2022Q3, from 8.1% in 2022Q2. Labour market conditions are expected to improve further and move closer to prepandemic levels as overall economic activity continues to pick up as per Statistics Mauritius.

The Mauritius IFC continues to attract robust financial flows as global economic activities picked up from pandemic level and cross-border investment activities continue to remain buoyant. With respect to the non-GBC flows, the real estate sector continues to support the influx of foreign direct investment in Mauritius, particularly as a result of easing of travel restrictions in 2022. Mauritius is also expected to receive fresh sources of foreign direct investments amid the emergence of new activity sectors. An acceleration in the realisation of investment projects, both within the public and private sectors, is further fuelling growth. Expected FDI for the year will be around Rs 25 billion, surpassing its pre-pandemic figures.

In 2022, headline inflation accelerated to 10.8% against 4.0% in 2021. To address this challenge, the Bank of Mauritius (BOM) has raised the Repo Rate five times in 2022, to 4.5% against 1.85% in December 2021. To cushion the impact of rising prices on the population the government has intervened in the market to protect, as far as possible, the quality of life in Mauritius.

One of the main challenges has been the preservation of the purchasing power of Mauritians. Against the rising tide of inflationary pressures, the Bank of Mauritius has reviewed the Repo Rate to 4.50% compared to 1.85% in December 2021.

As part of the New Monetary Policy Framework, the Bank started the issuance of the 7-Day BoM Bills to all banks, with a weekly average issuance of around Rs 8.5 billion.

The evolution of the exchange rate continues to reflect domestic economic fundamentals as well as international exchange rate movements. In 2022, the Mauritian Rupee has depreciated by 5.7% against the US Dollar, as per the BOM Monthly Statistical Bulletin, released in December 2022.

In 2022, the current account deficit is projected to be slightly lower, at 14.0% of GDP, compared to the previous estimate of 14.7%. This mainly reflects a much better than expected performance of the services account in Q3.

The Gross Official International Reserves (GOIR) remains at a level sufficient to provide a buffer against adverse external conditions. The GOIR stood at USD 7.7 billion as at end-December 2022, against USD 8.5 billion as at December 2021, representing 16.1 months of imports in December 2022, compared to 17.6 months of imports during the same period the previous year.

Financial analysis

Statement of financial position

Despite the challenging economic and financial environment, the Bank managed to grow its loans book by 20%, closing at Rs 26.1 billion compared to Rs 21.7 billion last year. In the rising interest and uncertain economic environment, the Bank has been selective and prudent in its approach to lending. The growth registered by our mortgage and international segments, alongside the increasing interest rates, contributed to the growth in interest income.

Following the completion of the right-sizing exercise in previous years, the deposits growth is now back on track, with total deposits closing at Rs 38.2 billion in December 2022, against Rs 37.9 billion in December 2021.

The liquidity position of the Bank remained strong, with a Liquidity Coverage Ratio of 276% as at December 2022.

Capital adequacy ratio for the Bank stood at 17.76%, with a tier 1 ratio of 12.37%, reflective of the strong capitalisation level.

The Bank has been consistent in managing downward its non-performing loan book, from Rs 701 million as at December 2021 to Rs 580 million as at December 2022. The NPL ratio improved from 3.23% as at December 2021 to 2.23% as at 31 December 2022, and remains amongst the lowest on the market.

Statement of comprehensive income

The Bank's operating income improved by 9%, from Rs 1,380 million in 2021 to Rs 1,506 million, for the year ended December 2022.

Net interest income improved significantly in 2022, by 22% compared to the year 2021, on account of expanded lending with better margins following successive hikes in interest rates, for both Rs and foreign currencies.

Non-interest income contribution went down by 9% compared to last year. Some gains generated on fixed income trading in 2021 did not repeat and some deals took more time than planned to be closed, thus delaying the relative fee income.

Non-interest expenses increased by 8% in 2022, following the Bank's continued programme of investment in its talents and digitalisation and technology strategies. However, the cost-to-income ratio was better than last year.

The Bank has also been successful in delivering a profit after tax of Rs 493 million against a net profit of Rs 413 million in 2021.

Achievements v/s objectives and plan for 2023

Objectives for 2022	Performance in 2022	Objectives for 2023
Return on Average Equity (ROAE) To achieve a ROAE of above 13%.	Achieved a ROAE of 13.45%, contributed by normal business and recoveries.	To achieve a ROAE of above 16%.
Return on Average Assets (ROAA) To achieve a ROAA of above 1%.	Achieved a ROAA of 1.12%.	To achieve a ROAA of above 1.3%.
Operating income Growth of above 24% in operating income.	9% increase in operating income.	Growth of above 33% in operating income.
Cost-to-income ratio Cost-to-income ratio of less than 60%.	Cost-to-income ratio of 67% on account of lower non-interest income.	Cost-to-income ratio of less than 58%.
Deposits growth Deposits growth of 22%, contributed by both Segment A and Segment B.	Lower deposits size, as per the Bank's strategy in prior years, started growing (1% growth in 2022).	Deposit growth of 21%.
Gross loans and advances growth 32% growth to be contributed by both Segment A and Segment B.	Gross loan book grew by 20%.	24% growth in gross loans and advances book.
Impaired ratio Gross impaired ratio to be brought down below 3%.	Gross impaired ratio of 2.23%.	Gross impaired ratio to be brought down below 1.9%.
Capital Adequacy Ratio (CAR) Maintain CAR above 15%.	CAR at 17.76% as at December 2022.	Maintain CAR above 15%.

Financial analysis

Statement of profit or loss

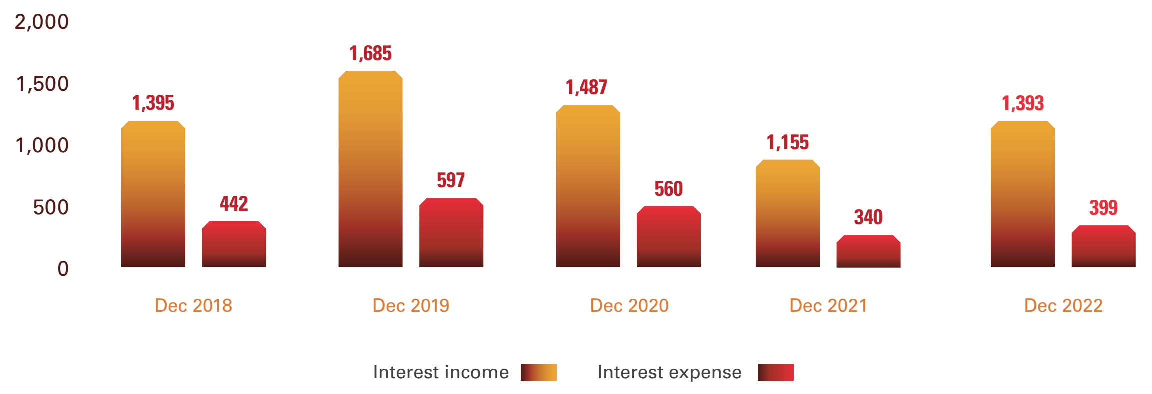
	Year ended Dec-20 Rs' 000	Year ended Dec-21 Rs' 000	Year ended Dec-22 Rs'000
Net interest income	927,179	815,007	993,814
Net fee and commission income	191,864	278,278	329,401
Net trading income	159,631	164,391	178,747
Other operating income	38,866	122,277	4,857
Operating income	1,317,540	1,379,953	1,506,819
Non-interest expense	(775,425)	(929,286)	(1,004,725)
Operating profit	542,115	450,667	502,094
Allowance for (credit impairment)/recoveries	(1,073,659)	71,799	33,476
(Loss)/profit before tax	(531,544)	522,466	535,570
Income tax credit/(expense)	39,819	(109,042)	(41,745)
(Loss)/profit for the year	(491,725)	413,424	493,825

Interest income and expense

	Year ended Dec-20 Rs'000	Year ended Dec-21 Rs'000	Year ended Dec-22 Rs'000
Interest income			
Loans and advances to customers and banks	1,189,768	907,083	989,285
Investment securities and bonds	253,970	229,695	233,277
Placements	43,285	18,565	170,659
	1,487,023	1,155,343	1,393,221
Interest expense			
Deposits from customers	367,867	197,183	235,303
Borrowings from Banks	117,862	52,074	75,274
Subordinated liabilities	69,780	86,879	81,930
Lease liabilities	4,335	4,200	6,900
	559,844	340,336	399,407
Net interest income	927,179	815,007	993,814
Average interest earning assets	39,614,033	39,502,982	38,974,108
Average interest-bearing liabilities	25,065,350	24,954,069	23,863,643
Interest income/average interest earning assets	3.75%	2.92%	3.57%
Interest expense/average interest-bearing liabilities	2.23%	1.36%	1.67%
Net margin	1.52%	1.56%	1.90%
Core revenue*	1,317,138	1,379,708	1,505,072

** Core revenue is defined as net interest income plus core non-interest revenue, after elimination of the effects of any unusual, non-operational items.*

Interest income and interest expense



Interest income, generated by both local and foreign assets and investments, increased by 21% as a result of successive rises in interest rates during the year, coupled with an expansion in the interest-earning assets books. Return on average interest-earning assets was 3.57% in 2022 (2.92% in 2021).

The strategy of the Bank on the assets side has been to remain prudent to continue to protect its liquidity position and capital.

Interest expenses rose by 17%, mainly attributed to the increase in cost of fund for both local and foreign funding raised, including some short-term borrowings which were raised during the year to manage the Bank's liquidity. The interest-bearing liabilities increased slightly compared to that of last year.

Overall, net interest income rose by 22% during the year, further to the above positive impact.

Non-interest income

	Dec-20 Rs'000	Dec-21 Rs'000	Dec-22 Rs'000
Net fees and commission	191,864	278,278	329,401
Net trading income	159,631	164,391	178,747
Other operating income*	38,866	122,277	4,857
	390,361	564,946	513,005

Excluding the one-off gains on fixed income trading in 2021, the overall non-interest income in 2022 improved by 16%.

Net fees and commissions have been significantly higher compared to last year, mainly contributed by a number of offshore trade transactions and facility arrangement fees.

The Bank is still pursuing its initiatives to improve the share of non-interest income through diversification and new income sources.

Financial analysis

Non-interest expense and cost management

	Dec-20 Rs'000	Dec-21 Rs'000	Dec-22 Rs'000
Personnel expenses	447,820	557,059	617,351
Depreciation and amortisation	78,621	75,861	96,901
Other expenses	248,984	296,366	290,473
	775,425	929,286	1,004,725

Non-interest expenses increased by 8% compared to 2021, bringing the cost to income ratio to 67%. The Bank's objective is to improve the cost-to-income ratio to below 58% in the short- to medium-term.

HR costs increased by 11% compared to last year, as a result of a rise in pension costs, provision for staff bonuses, the impact of an early voluntary retirement scheme and recruitment costs.

Other expenses went down by 2%, mainly on account of lower professional costs. IT, premises and capitalisation of transformation-related costs, were incurred in line with the Bank's strategy.

Credit exposure

As shown in the table below, the Bank has a well-diversified credit portfolio without any undue concentration in any one sector, as at 31 December 2022.

Sectors	2020	2021	2022		
	Total	Total	Segment A	Segment B	Total
Lending	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Agriculture & fishing	636,497	425,388	256,326	-	256,326
Manufacturing	53,950	36,187	49,519	265,075	314,594
Tourism	2,168,547	1,682,526	1,384,047	-	1,384,047
Transport	438,111	590,454	417,912	254,447	672,359
Construction	5,795,945	6,404,451	8,485,689	171,946	8,657,635
Financial and business services	3,287,914	2,588,138	1,018,297	971,409	1,989,706
Traders	2,922,517	3,493,100	2,607,289	209,681	2,816,970
Personal	1,701,194	1,653,738	1,739,049	76,839	1,815,888
Professional	12,979	14,433	11,163	-	11,163
Global business licence holders	553,567	672,979	-	1,054,997	1,054,997
Central government	1,246,431	512,881	-	1,355,644	1,355,644
Others	1,743,641	260,689	540,031	52,025	592,056
	20,561,293	18,334,964	16,509,322	4,412,063	20,921,385
Lending to banks	1,985,889	3,339,038	-	5,150,285	5,150,285
Total credit exposure	22,547,182	21,674,002	16,509,322	9,562,348	26,071,670
Trading	12,035,154	2,083,101	1,370,618	32,256	1,402,874
Investment	10,239,400	10,339,563	2,321,172	8,616,504	10,937,676
Off balance sheet	3,167,836	5,028,998	2,234,797	2,129,448	4,364,245

Total lending exposures increased during the year, to close at Rs 26.1 billion as at December 2022 compared to Rs 21.7 billion as at December 2021. Investments held were in line with the Bank's business operations, including liquidity management considerations.

Exposure to the construction sector experienced a growth of 35%, largely mortgage driven.

In line with the Bank's strategy, exposure to banks have gone up from Rs 3.3 billion as at December 2021 to Rs 5.2 billion as at December 2022.

Credit quality

The table below shows the data on impairment and related ratios for the past 3 years.

	Dec-20 Rs'000	Dec-21 Rs'000	Dec-22 Rs'000
Impaired advances	1,955,228	700,531	580,214
Allowance for impairment – Stage 3	1,531,353	583,243	518,943
Impaired advances/Gross advances	8.67%	3.23%	2.23%
Net impaired/Net advances	2.05%	0.57%	0.25%
Provision coverage ratio	78.32%	83.26%	89.44%

The Bank closed 2022 with an impairment ratio of 2.23% as compared to 3.23% as at December 2021.

The Bank has been consistent in improving its provision coverage ratio, standing at 89.44% as at December 2022 compared to 83.26% as at December 2021. The Bank holds adequate collaterals to cover the remaining 10.56%.

A breakdown of gross advances, impaired advances and related specific provisions percentage by industry sector split between segments A and B as at 31 December 2022, is shown on the next page.

Financial analysis

Loans to customers

Sectors	Gross amount of loans		Impaired loans		Impairment cover on impaired loans	
	Segment A	Segment B	Segment A	Segment B	Segment A	Segment B
	Rs'000	Rs'000	Rs'000	Rs'000		
Agriculture and fishing	256,326	-	-	-	-	-
Manufacturing	49,519	265,075	1,700	-	46%	-
Tourism	1,384,047	-	716	-	100%	-
Transport	417,912	254,447	10,190	251,994	77%	100%
Construction	8,485,689	171,946	130,016	3,465	64%	-
Financial and business services	1,018,297	971,409	715	-	100%	-
Traders	2,607,289	209,681	118,361	693	98%	100%
Personal	1,739,049	76,839	59,136	-	92%	-
Professional	11,163	-	-	-	-	-
Global business licence holders	-	1,054,997	-	-	-	-
Central government	-	1,355,644	-	-	-	-
Others	540,031	52,025	3,232	-	-	-
Total	**16,509,322**	**4,412,063**	**324,062**	**256,152**		
Sectors						
Loans to banks	-	**5,150,285**	-	-	-	-

40% of Segment A impairments originate from exposures to the construction sector, while 98% of the impaired loans for Segment B consist of facilities granted to the air transport sector.

General provisions

In compliance with the "Macro-prudential policy measures for the Banking Sector", issued by the Bank of Mauritius in October 2013, the Bank maintained additional portfolio provisions on certain specific sectors, booked as general reserve as an appropriation of retained earnings.

Other details regarding credit quality are given in note 15 (h) of the Financial Statements.